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TAGS: ECON EFIN EINV ETRD AR
SUBJECT: Argentina: Unlikely to Achieve Aim of 2009 Holdout Deal

REF: BUENOS AIRES 1198; BUENOS AIRES 1161

Summary

¶1. (SBU) A key Argentine Ministry of Economy official explained that the GOA hopes to launch its offer to the holdouts from the 2005 debt restructuring deal by December 15, in order to accommodate the desire of many institutional investors to clear the defaulted Argentine debt from their books before the end of the year. While all involved are working hard to make this happen, it is unlikely, as time is short and much work remains to be done vis-????-vis the securities regulatory authorities in numerous countries. When finally proposed, the deal is likely to have a net present value (NPV) of anywhere between 52 cents to the dollar of bonds held to 28 cents, depending on which of the components now being studied by the GOA make it into the final offer. The GOA will interpret even an offer on the high end of this range as fulfilling the legal requirement that the new offer be worse than the earlier 2005 offer, since it would pay for some elements of it by issuing a new bond, rather than with cash, as in the 2005 deal. End Summary.

GOA Moving on Holdouts Offer

¶2. (U) On November 18, Deputy EconCouns met with Norberto Lopez

Isnardi (LI), the Director of the Office of Public Credit in the Ministry of Economy, the chief officer responsible for the technical aspects of the reopening of the 2005 debt restructuring deal to reach an agreement with the holdouts. LI described the steps in the process as follows. After a debate, the Congress approved the suspension of the Bolt Law ("Ley Cerrojo") on November ¶18. This triggered a number of events which will ultimately lead to the launching of a formal exchange offer to the holdouts. First, the suspension of the Bolt Law needs to officially become law with the President's signature and publication in the Official Gazette. This generally takes about 10 working days. Second, the President will have to sign a decree allowing the GOA to issue bonds under foreign-country law, which will be one aspect of the exchange transaction.

SEC Approval Key

¶3. (SBU) Third, the GOA must hire an Exchange Agent to be

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responsible for all of the complicated logistics involved in the implementation of the exchange. In the 2005 debt restructuring, the Bank of New York was the agent. Currently, the GOA is working to hire this bank again. Fourth, it is necessary to complete the approval processes of all of the different regulatory agencies in the various countries in which investors will be involved. The GOA's intention is to launch the transaction globally -- in all of the countries at the same time. This may be difficult to do given that some of the regulatory agencies may take different amounts of time to approve the required paperwork. LI noted, however, that once the U.S. Security and Exchange Commission (SEC) clears the documentation, other regulatory agencies around the world are likely to approve shortly thereafter, as happened in the 2005 debt restructuring process.

Much Paperwork Remains

¶4. (U) The GOA has already filed an 18K at the SEC but it still needs to file the Prospectus Supplement of the offer, which includes all the mechanics and implementation issues involved in the transaction. The three banks working on the agreement on behalf of the GOA (Barclays, Citi, and Deutsche) need to file a document called the "Dealer Management Agreement," which is still in the works. The GOA is working to file the equivalent of the 18K in Japan during the week of November 23. It still needs to file the requisite paperwork submission for the EU in Luxemburg, where it will file the equivalent of the 18K for Europe plus the Prospectus Supplement. The filing in Luxemburg should cover all of Europe. However, it is unclear if Italy will accept the Luxembourg submission or will require a separate filing.

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Institutional Investors Want a 2009 Deal

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¶5. (U) According to LI, the SEC requires a maximum of thirty days to review and comment on the Prospectus Supplement. However, it may take as little as two weeks, which would still enable the GOA to launch the offer before its December 15 target date. If the approval process goes beyond December 15, it will likely not be possible to launch an offer in 2009, as the holiday season around the world and the summer travel season in Argentina would be too close. LI acknowledged that it may be too ambitious to expect an offer to be launched by December 15. However, he did not dismiss the possibility, saying that the institutional investors who are willing to participate would prefer to have the offer launched and settled before the end of the year to avoid, if possible, carrying an open position in GOA defaulted debt into the new year. The GOA would also like as much of the deal as possible to happen during the current year.

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GOA Encouraging Retail Investor Participation

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¶6. (U) Without getting into specific details of the offer, LI alluded to some issues currently being analyzed by the GOA. One is the possibility of an early submission period before the end of the year of about a week to accommodate the preference of institutional investors to settle the transaction prior to the end of the year. Retail investors would also be allowed to participate during this period. However, the GOA believes that retail investors will prefer to participate over the course of a normal submission period, which could last for about five weeks. Having two submission periods would accommodate the needs of both types of investors, and - the GOA hopes - increase the overall participation rate. In a further effort to encourage the participation of retail investors, the GOA is studying the possibility of issuing a shorter-maturity but lower coupon bond as part of the deal. LI stressed that the GOA considers it very important that there be high retail investor participation and is putting a good deal of effort into tailoring the proposal to be more attractive to this group of bondholders.

Components of Deal Still Unclear

¶7. (SBU) LI said that the GOA is considering making an offer composed of four possible components - an equivalent to the long-maturity discount bond issued in the 2005 restructuring; a new shorter-maturity bond with a relatively low interest rate; past due interest -PDI-to be paid for by the issuance of new bonds; and a GDP warrant. However, it is not clear if all of these pieces will make it into the final offer. Depending on which elements are finally included, the worth of the offer comes in at a net present value (NPV) somewhere between 52 cents to a dollar of original principle at present market prices with all of the components included to 28 cents, when excluding PDI and a GDP warrant. A NPV of 52 cents would obviously be better for investors in present value terms compared to the original 2005 offer. However, LI argued that the GOA could still interpret the offer as fulfilling the legal requirement that it be worse than the 2005 offer, since, from its point-of-view, the GOA would pay PDI and dividends on the GDP warrants with a bond rather than with cash. Investors who participate in the 2005 exchange would therefore have no incentive to resubmit their bonds to participate in the new exchange. As for the interest rate the GOA will have to pay on the new bonds to be issued in return for the new cash put up by the investors in the

transaction, LI acknowledged that Economy Minister Boudou's previously-expressed desire that the yield reach the single-digit level is unlikely to be fulfilled.

Difficult to Know Who Holds What

¶8. (U) Although noting that it is impossible to know for sure, LI said that of the $20 billion face value in bonds controlled by the holdouts, the GOA estimates that about 40% ($8 billion) is held by retail investors and 60% ($12 billion) by institutional investors. According to LI, institutional investors who control about $8-9 billion have already committed to the three banks handling the transaction to participate. Those -- mainly vulture funds -- looking to the courts for a solution account for about $3-3.5 billion. LI noted, however, that it is very difficult to accurately estimate the sums held by the different classes of investors, since Italian investors, who have filed claims at the International Center for the Settlement of Investment Disputes (ICSID) do not need to prove ownership before filing ICSID claims. Consequently, the value of the claims ultimately filed by Italian investors in the proposed restructuring - when they do have to prove ownership very clearly -- may be considerably lower than the amount they filed for in ICSID claims. Also, the value of the bonds controlled by retail investors is also unclear, since many of the original retail investors are assumed to have sold most, if not all, of their holdings.

MARTINEZ